CLEVELAND PUBLIC
BUSINESS INFO

GRAY DRUG STORES, INC.

Annual Report to Shareholders

FOR THE YEAR ENDED JUNE 30, 1949

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE—2400 SUPERIOR AVENUE
CLEVELAND, OHIO

LABORATORY—1707 CRAWFORD ROAD
CLEVELAND, OHIO

BOARD OF DIRECTORS

EDWARD E. BARKER.....Vice-President, The Cleveland Trust Company
CARLYLE W. EVANS.....Vice-President, Gray Drug Stores, Inc.
HENRY H. GRAY.....Vice-President, Gray Drug Stores, Inc.
FRANK E. JOSEPH.....Partner, Jones, Day, Cockley and Reavis
CHARLES B. MERRILL.....President, Merrill, Turben & Co.
ADOLPH WEINBERGER.....President and Treasurer, Gray Drug Stores, Inc.

OFFICERS

ADOLPH WEINBERGER.....President and Treasurer
CARLYLE W. EVANS.....Vice-President
HENRY H. GRAY.....Vice-President
MILTON M. NEUBAUER.....Vice-President
LLOYD C. DOUGLASS.....Secretary and Assistant Treasurer
JOSEPH VALINS.....Assistant Secretary

TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY.....Cleveland, Ohio

AUDITORS

ERNST & ERNST.....Cleveland, Ohio

COUNSEL

JONES, DAY, COCKLEY and REAVIS.....Cleveland, Ohio

REPORT TO SHAREHOLDERS

September 12, 1949

To our Shareholders:

STORES

During its fiscal year ended June 30, 1949, the Company made considerable further progress on its program of replacing smaller stores with larger units so as to permit more efficient and economical store operation and increase opportunities for promoting lines of merchandise having relatively higher profit margins. The Company sold two of its smaller stores, replaced six other of its smaller stores with new enlarged and remodeled stores and acquired three new stores. In the preceding fiscal year the Company sold fifteen of its smaller stores, enlarged or remodeled six existing stores and acquired two new stores.

FIXED ASSETS

This program increased the fixed asset account of the Company during its past fiscal year by $496,538 and adversely affected both current net sales and current operating profit. We believe, however, that the result has been to strengthen our chain and add substantially to its future earning power. While we expect to continue the program indefinitely in order constantly to improve our stores and better our competitive position, we hope that the amount to be expended for fixed assets during the current fiscal year will not exceed the amount of depreciation chargeable to operations, which amounted to $254,405 for the past fiscal year.

MODERNIZATION

On the two pages of this report next following this letter we are printing some views of one of the stores which we enlarged and remodeled this past year (in the Deshler-Wallick Hotel in Columbus) and of one of the new stores which we opened this past year (in the National City Bank Building in Cleveland). We believe that these are

two of the outstanding drug stores in the State of Ohio. We hope that you will visit and patronize them and our other stores, and give us the benefit of any suggestions you may have.

SALES

Net sales for the past year were $15,643,806 as compared to $16,227,105 for the preceding year, excluding in both years taxes collected from customers and paid to governmental agencies which are no longer recorded as sales. The Company experienced a lower sales volume along with the retail drug industry generally, although sales from stores disposed of during the preceding year, in accordance with the program above outlined, and which were not replaced, accounted for a large part of this difference in net sales.

EARNINGS

Net income for the past year, after deducting all charges including taxes, was $241,014, or $1.73 a share, as compared with $293,263, or $2.11 a share, for the preceding year. The Company had a substantial non-operating profit during the preceding year from the sale of stores, in accordance with the program above outlined, and the greatly decreased non-operating profit during the past year accounts for most of this difference in net income. The net operating profit before taxes (which excludes profit on the sale of stores and all other non-operating income) was $411,533 for the past year, as compared with $417,769 for the preceding year, representing a decrease of less than 2%.

OUTLOOK

The outlook for business in the next fiscal year is still uncertain. However, in the past two years we have accomplished much of our store improvement program. We have also modernized and consolidated our warehouse facilities. We have a fine organization that is alert to changing conditions and constantly searching for ways of increasing our sales and promoting economy of operations. We believe that the Company is in excellent condition to cope with whatever economic conditions may prevail in the future.

Respectfully submitted,

Adolph Weinberger

President

Gray's new SUPER STORES

GRAY DRUG
Corner Broad and High Sts.
Columbus, Ohio

On these pages are presented some views of several of the new or remodeled stores opened by your company during the past year. We believe the pictures shown here reflect, better than words, the constant progress of Gray's in drug store design and merchandising.

Interior View of
GRAY DRUG
Corner Broad and High Sts.
Columbus, Ohio

GRAY DRUG
E. 6th St. and Euclid Ave.
Cleveland, Ohio

DOWNTOWN STORES in MAJOR MARKETS

Heading our list of new or remodeled stores are the two new downtown units—"streamlined" for greatest sales efficiency—at high-traffic corners in Cleveland and Columbus, Ohio.

GRAY DRUG
Modern and Efficient
PRESCRIPTION DEPT.

GRAY'S keep pace with tomorrow!

(a)

(b)

(c)

(d)

(e)

The pictures on this page show new Gray stores opened at . . . .

(a) 100 North Park Ave., Warren, Ohio

(b) 5474 Broadway Ave., Cleveland, Ohio

(c) 15700 Broadway, Maple Heights, Ohio

(d) 60 South Parsons Ave., Columbus, Ohio

(e) 138 East State St., Ithaca, N. Y.

(f) 13922 Cedar Rd., University Heights, Ohio

(g) 3708 East Broad St., Columbus, Ohio

(f)

(g)

ACCOUNTANTS REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and its subsidiaries as of June 30, 1949, and the related consolidated statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus present fairly the consolidated financial position of Gray Drug Stores, Inc., and its subsidiaries at June 30, 1949, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 19, 1949

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS			
Cash on hand and demand deposits			$ 964,078.51
Trade accounts receivable, less allowance of $10,000.00			138,646.31
Tax stamps—state			50,332.78
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$1,997,487.33	
At warehouse		639,066.43	
At laboratory		10,483.44	
		$2,647,037.20	
In transit		44,247.12	2,691,284.32
TOTAL CURRENT ASSETS			$3,844,341.92
OTHER ASSETS			
Cash surrender value of life insurance		$ 63,112.50	
Receivable for capital stock subscribed for by officers and employee		49,975.00	
Refundable federal taxes on income of prior years—estimated		24,732.78	
Miscellaneous receivables, deposits, etc.		23,861.80	161,682.08
FIXED ASSETS—at cost, less allowances for depreciation and amortization			
Land		$ 21,091.10	
Furniture and fixtures, etc.	$1,858,106.65		
Leasehold and leasehold improvements	1,300,292.12		
	$3,158,398.77		
Less allowances for depreciation and amortization	1,413,702.93	1,744,695.84	1,765,786.94
PATENTS AND TRADE-MARKS			1.00
DEFERRED CHARGES			
Prepaid insurance		$ 35,598.09	
Taxes		31,102.75	
Other		24,508.76	91,209.60
			$5,863,021.54

STORES, INC., AND SUBSIDIARIES, JUNE 30, 1949

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES			
Notes payable—portion due within one year			$ 100,000.00
Accounts payable:			
Trade accounts		$ 593,651.63	
Salaries, wages, and commissions		99,732.68	
Pay roll taxes and taxes withheld from employees		55,831.89	749,216.20
Accrued:			
Taxes (other than taxes on income)		$ 112,347.46	
Rent and interest		56,329.05	168,676.51
Federal and state taxes on income—estimated less $9,110.70 United States Treasury Savings Notes			168,815.73
TOTAL CURRENT LIABILITIES			$1,186,708.44
LONG-TERM DEBT			
Notes payable:			
To insurance company—Note A		$ 997,347.43	
To bank:			
Payable in semiannual installments of $50,000.00 each	$ 350,000.00		
Less portion classified as current	100,000.00	250,000.00	1,247,347.43
DEFERRED CREDIT			
Deposit received in connection with proposed sale of lease—Note B			25,000.00
CAPITAL STOCK AND SURPLUS			
Capital stock (without par value):			
Authorized 150,000 shares			
Stated capital:			
Outstanding 138,850	$1,695,200.00		
Subscribed 2,675	50,825.00	$1,746,025.00	
Surplus—Note A:			
Capital surplus	$ 256,647.07		
Earned surplus	1,401,293.60	1,657,940.67	3,403,965.67
			$5,863,021.54

See notes to financial statements.

CONSOLIDATED PROFIT & LOSS STATEMENT

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1949

Net sales		$15,643,805.87
Cost of goods sold		10,041,471.73
		$ 5,602,334.14
Selling, general and administrative expenses		5,190,801.43
		$ 411,532.71
Other income:		
Revenue from telephone, etc.	$ 20,777.91	
Miscellaneous	11,830.86	32,608.77
		$ 444,141.48
Other deductions:		
Interest expense	$ 59,260.12	
Allowance for doubtful receivables	5,000.00	64,260.12
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 379,881.36
Federal taxes on income—estimated:		
Provision for the year	$ 142,000.00	
Adjustment of prior years provisions	3,133.28*	138,866.72
NET PROFIT		$ 241,014.64

See notes to financial statements.

* Indicates red figure.

CONSOLIDATED STATEMENT OF SURPLUS

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1949

CAPITAL SURPLUS		
Balance at July 1, 1948, and June 30, 1949—no change during the year		$ 256,647.07
EARNED SURPLUS		
Balance at July 1, 1948		$1,306,018.04
Net profit for the year		241,014.64
		$1,547,032.68
Cash dividends declared:		
$.32½ a share paid Oct. 1, 1948	$ 45,071.10	
.32½ a share paid Jan. 3, 1949	45,127.98	
.20 a share paid Apr. 4, 1949	27,770.00	
.20 a share paid July 1, 1949—Note C	27,770.00	145,739.08
BALANCE AT JUNE 30, 1949		$1,401,293.60

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1949

NOTE A

This note matures in semiannual installments of $50,000.00 each beginning either May 1, 1953, or the May 1st or November 1st next succeeding the payment in full of the note payable to bank (unpaid balance of $350,000.00 at June 30, 1949). In addition, the Company is required to make additional payments in each year to the extent of 20% of the excess of consolidated net profit for the preceding year over $280,000.00, but such additional payment in one year shall not exceed $100,000.00. The loan agreement includes, among other things, certain requirements relative to maintenance of net current assets, and certain restrictions as to the payment of dividends. Under the foregoing provisions, the amount of earned surplus not available for dividends at June 30, 1949, was $1,238,984.98.

NOTE B

A lease (net carrying amount $79,907.88) covering certain premises, part of which is occupied by one of the Company's stores, was sold on July 15, 1949, for a consideration of $100,000.00 pursuant to an agreement entered into by the Company prior to June 30, 1949. Pending such sale, the proposed purchaser assumed the rights and obligations of the Company under the lease (under the terms of a sublease) and granted to the Company a lease (to April 30, 1965) covering the portion of the premises now occupied by the Company.

NOTE C

Prior to June 30, 1949, the Company deposited funds with the dividend disbursing agent for payment of the dividend payable July 1, 1949.

NOTE D

Allowances for depreciation and amortization aggregated $254,405.24 for the year.

NOTE E

Certain taxes, aggregating approximately $375,000.00, which are collected from customers and paid to governmental agencies, are not included in the profit and loss statement for the year ended June 30, 1949. During prior years, similar taxes were included in sales and cost of goods sold.

GRAY DRUG STORES, INC.

OPERATING STORES
IN THE FOLLOWING CITIES:

OHIO

Akron
Alliance
Barberton
Bexley
Canton
Cleveland
Cleveland Heights
Columbus
East Cleveland
Fremont
Garfield Heights
Lakewood
Mansfield
Massillon
Painesville
Rocky River
Sandusky
South Euclid
Steubenville
Warren
Wooster
Youngstown

PENNSYLVANIA

Bradford
Erie
Indiana
Kittanning
Punxsutawney

NEW YORK

Corning
Cortland
Elmira
Ithaca
Oneida